



STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

July 17, 2024

ADDENDUM NO. 1
To
Request for Expression of Interest
Global Custody Services and Securities Lending – 2024

The Employees' Retirement System of the State of Hawaii (ERS) is providing the following responses to questions re: Expression of Interest to Provide Global Custody Services and Securities Lending services:

1. **QUESTION:** Please describe the organization's overall approach to portfolio management, including the following information:

- a. Does the organization use consultants or OCIOs to make investment decisions or does the organization retain investment & manager selection in-house?

RESPONSE: ERS maintains a multi-level discretionary model for portfolio management and manager selection purposes. For selection, consultants are utilized for all asset classes, but discretionary capacities differ between risk profiles. For Public Equity, Global Credit, Real Assets and Diversifying Strategies, selection consultants serve in an advisory capacity, and ERS maintains discretion to underwrite and execute implementation decisions.

- i. If the latter, is the organization directly trading securities with in-house portfolio managers, or largely using external managers?

RESPONSE: ERS utilizes a manager-of-manager portfolio management approach and does not trade any strategies internally. We do not anticipate a change to this approach in the near-term.

- b. Are there any other unique constructs to the portfolio construction, such as master/feeder structures, comingled pools, portable alpha strategies, or overlay programs?



Employees' Retirement System
of the State of Hawaii

RESPONSE: i) Managed Accounts: ERS utilizes a platform manager for implementation of its hedge-fund-like structures (within Diversifying Strategies). These strategies are managed through a managed account structure, custodied and administered by the platform manager, and then delivered to the ERS Master custodian to be treated as a line-item account. ii) Cash Securitization Overlay: ERS engages an external overlay manager for purposes of cash securitization. Cash in this program includes positions within separate accounts, externally managed, as well as ERS liquidity cash. Instrument mixes utilized within this program are intended to replicate the Policy benchmark as closely as possible, consisting of multi-asset instruments.

2. **QUESTION:** If the organization allocates to alternative investments, please note whether these investments are through funds of funds, direct limited partnerships, co-investments, and/or direct investments into private companies?

RESPONSE: ERS allocates capital within its alternative program to all noted options (above), except direct investments into private companies.

3. **QUESTION:** Please list any software used by the organization today in the following areas:

- a. Portfolio Accounting

RESPONSE: ERS utilizes Oracle E-Business Suite for the general ledger and financial statements, with Microsoft Excel and Access. ERS intends to expand services and/or products in this area.

- b. Alternative Investments / Private Assets

RESPONSE: No internal tools utilized to date, but ERS does intend to expand services in this area. To date, all alternative investment reporting has been leveraged at the selection consultant level.

- c. Portfolio Management / Investment Book of Record

RESPONSE: No internal tools utilized to date, but ERS does intend to expand services in this area. To date the accounting book of record has served as the primary source for performance report detail.

- d. Performance Measurement

RESPONSE: ERS leverages custodian-provided performance measurement services at the total fund level. Additional asset class measurement tools are utilized through the leveraging of selection consultant tools and software.

e. Risk Measurement

RESPONSE: ERS leverages custodian-provided risk measurement services at the total fund level. Additional asset class measurement tools are utilized through the leveraging of selection consultant tools and software.

f. Liquidity and/or Exposure Management

RESPONSE: No internal tools utilized to date, but ERS does intend to expand services in this area.

g. Document Management / CRM

RESPONSE: No internal tools utilized to date, but ERS does intend to expand services in this area.

h. ESG

RESPONSE: No internal tools utilized to date, but ERS does intend to expand services in this area.

4. **QUESTION:** Please list any other service providers in the below categories:

a. Investment Consultants

RESPONSE: Meketa (General Consultant), Townsend (Real Assets Selection Consultant), Hamilton Lane (Private Equity Selection Consultant), Man Group (Diversifying Strategies Selection Consultant).

b. Fund Administrators

RESPONSE: No direct fund administrators are utilized by ERS, but additional fund administrators are utilized via the managed account platform provided by Man Group.

c. Prime Brokers or other custodians

RESPONSE: No direct prime brokers or secondary custodians are utilized by ERS but can be utilized via the managed account platform provided by Man Group.

d. Recordkeepers

RESPONSE: No record keepers, outside of the custodial bank relationship, are utilized by ERS.

e. Market Data & Analytics Providers

RESPONSE: ERS leverages custodian-provided services at the total fund level. Additional asset class analytics are utilized through the leveraging of selection consultant resources.

f. Class action monitoring service provider

RESPONSE: ERS leverages custodian-provided services at the total fund level, as well as third party provider, Financial Recovery Technologies.

5. **QUESTION:** Please describe any processes the organization uses today to shadow and/or reconcile current custodial data, including systems & methods utilized as well as frequency.

RESPONSE: ERS utilizes Oracle E-Business Suite for the general ledger and financial statements, with Microsoft Excel and Access. Accounting data is obtained from (a) the ERS custodian's accounting and investment reporting system(s) through the custodian web portal and (b) administrator(s) of investment managers classified as Securities Held Elsewhere (SHE) reports emailed to ERS and/or the administrator's web portal. The custodian and investment manager are responsible to reconcile the custodial data and provide reports on the reconciliation to ERS. ERS intends to leverage the custodian services and/or products in this area for both custody and SHE accounts.

6. **QUESTION:** Please describe any upcoming material changes in the way the organization might invest going forward – changes in consultants, portfolio construction, and/or asset allocation

RESPONSE: ERS just completed material changes to its asset allocation. No further material changes are anticipated.

7. **QUESTION: Securities Lending:**

- a. Please confirm for VII. QUESTIONNAIRE if you are asking that sections A through D be completed as lending agent and needing responses for Third-Party Lending?

RESPONSE: ERS is anticipating responses as lending agent.

- b. Please confirm if you are also seeking two revenue assessments? One scenario as lending agent and second scenario of Third-Party lending.

RESPONSE: See previously response provided in 7.a.

- c. Please advise if you have a policy on proxy voting.

RESPONSE: Proxy voting guidance can be found in ERS' Investment Policy Statement, accessible on the ERS website. [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](#)

8. **QUESTION: General Submission**

- a. Please confirm what format with should provide the RFP response in. Page 35 of the RFP document indicates Excel but on page 9 it states we should not exceed 200 pages.

RESPONSE: ERS requires submissions in Word or PDF format. The excel questionnaire must also be completed for evaluation of responses.

- b. Please confirm if the redacted copy of the RFP response can be put in Word.

RESPONSE: Yes, redacted version can be provided in Word of PDF format.

9. **QUESTION: Banking**

- a. Please provide a list of countries that State of Hawaii sends International ACH payments.

RESPONSE: See response provided later in 16.j.

- b. Please provide a breakdown of transaction volume by checks, ACHs and wire payments on a monthly basis.

RESPONSE: See response provided later in 16.j.

10. **QUESTION: Foreign Exchange**

- a. The RFP makes note of cash overlay, is the organization currently running an overlay strategy either in house or via the current custodian or 3rd party investment manager?

RESPONSE: See previously response provided in 1.b.

- b. If so, does this cover Cash and any other asset classes, such as Fixed Income for FX?

RESPONSE: See previously response provided in 1.b.

11. **QUESTION: Information for Pricing**

- a. Please provide the 'Account Type Summary' report found on page 6 of the EOI PDF, in an Excel format.

RESPONSE: The "Account Type Summary" in Section I , Overview listed on pages 4-6 of the EOI is provided in the excel file, titled: "**Custody EOI 2024 Addendum 1 Account Type List**".

- b. Please provide the account volume by type (i.e. separately managed, single, cash).

RESPONSE: The “Account Type Summary” in Section I , Overview listed on pages 4-6 of the EOI is provided in the excel file, titled: “**Custody EOI 2024 Addendum 1 Account Type List**”.

- c. Please provide annual transaction volumes by single line asset type (i.e.

RESPONSE: See previously response provided in 11.a.

- d. For Performance reporting do you require the following:

- i. Attribution analysis?

RESPONSE: Yes.

- ii. Benchmarks? If so please provide a list of all that are used.

RESPONSE: Yes. Please reference ERS’ Investment Policy Statement, accessible on the ERS website. [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](#)

- iii. Stock level attribution?

RESPONSE: Yes.

- e. For the derivatives exposure, please provide the type of position, how many open positions and the typical annual trade activity by position type.

RESPONSE: ERS will issue an Addendum to this EOI for the following Attachments.

- Attachment 4: 2024 Asset Holdings of ERS
- Attachment 9: ERS Investment Statistics

- f. Is Plan Accounting either Dollar Allocation or Unitization needed?

RESPONSE: See response provided in 16.h. below.

- g. What frequency of Compliance Reporting is required? (i.e. daily, monthly, quarterly)

RESPONSE: Monthly.

- h. Please confirm if any look through reporting is needed for Commingled Funds.

RESPONSE: Yes, look though would be needed.

12. QUESTION: Legal Review

- a. The Request for EOI (“Request”) makes one reference to ERISA and various references to fiduciary. However, the Offeror will be providing custody services as directed and not exercising its discretion.

- i. Is it correct that ERS is not subject to ERISA?

RESPONSE: ERS is exempt from coverage under title I of ERISA, except for the use of the phrases “no part of the corpus or income of the system shall be used for or diverted to purposes other than for the exclusive benefit of members and their beneficiaries” (Hawaii Revised Statutes (“HRS”) §88-22.5 and “for the exclusive use and benefit” (HRS § 88-127), which indicate ERS has incorporated ERISA’s Exclusive Benefit Rule.

- ii. Is there a Hawaiian statute or other legal requirement that the Offeror serve as a fiduciary with respect to its services? If yes, can you provide the legal citation(s)?

RESPONSE: There is no Hawaii Revised Statute requiring the Offeror to serve as a fiduciary with respect to its services and ERS has not fully adopted the ERISA provisions for public pension plans. However, ERS’s investment policy, which was created to provide ERS with a comprehensive set of guidelines for proper management of its investment decisions, does recommend that ERS, as a public pension plan, use the ERISA regulations as guidelines for managing the plan’s assets in a procedurally prudent manner. See Page 16 of the ERS Investment Policy available online at: [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](https://ehawaii.gov/hiers-ips-november-2023-20240101-final.pdf)

- iii. Is the fiduciary language negotiable (e.g., clarification that Offeror would only be a fiduciary to the extent it exercises discretion in certain specified situations)?

RESPONSE: No, the fiduciary language is not negotiable.

- b. Section IV. Minimum Qualifications is on page 14 of the Request and states among other things “A. Must comply with all applicable Hawaii laws...”.

- i. What are the legal citations to the Hawaii laws that would be applicable to an Offeror providing global custody services under the Request?

RESPONSE: Due to the number of scenarios that may potentially arise throughout the life of an awarded contract, it is recommended the Offeror retain its own private counsel for a response.

- c. Section VII. Questionnaire is in pages 35-62 of the Request:

- i. Is it correct that the “EXCEL QUESTIONNAIRE (PROVIDED SEPARATELY, TITLED: ‘HIERS Custody EOI 2024 VII. QUESTIONNAIRE’) contains the same questions?

RESPONSE: That is correct.

13. **QUESTION: Scope of Services, M. Reporting Requirements Section 2 Q13 - Q3 (Pg 28)**

- a. There appears to be a break in the number sequence. If there needs to be a reference to an item in this section, should we keep to the number sequence represented or renumber?

RESPONSE: The numbering sequence is accurate. Section M consists of items 1-19. Note that item 2 contains sub-items 1-13, reflecting the required month-end reporting to be included in scope of services. When referencing these items within the scope of services, please reference as follows: section letter, item number, and sub-item number (i.e., Section M, Item 2.2).

14. **QUESTION: Disbursement Services**

- b. Provide the average number of periodic and non-periodic payments made monthly and identify those made via ACH and those made by check for each payment type. What portion (monthly estimate) of the total payments made would require a payment in a foreign currency?

RESPONSE: See response provided later in 16.j.

- c. Is an administrator/recordkeeper used currently or is there a desire to add one? Is it possible to share the name of the administrator/recordkeeper?

RESPONSE: No, ERS does not utilize an administrator/recordkeeper.

- d. Who receives and responds to your participants' calls?

RESPONSE: ERS staff.

- e. Do your participants have online access to a website to view their data and make updates?

RESPONSE: No, there is no online website for ERS benefit payments.

- f. Who is currently producing the tax forms for these payments?

RESPONSE: ERS staff.

15. **QUESTION: Securities Lending**

- g. Should the below requested Revenue Projection be a “forward looking” or “backward looking”/(12-month lookback) estimate?

SECURITIES LENDING ESTIMATED REVENUE CALCULATION:	
	Revenue Projections*
Estimated daily average lendable base:	\$
Estimated daily average securities out on loan (A):	\$
Projected average rebate rate (at current market levels):	%
Projected reinvestment rate (at current market levels):	%
Projected yield spread on securities lent (B):	%
Percentage of lendable income to ERS (Split %) (C):	%
Annual Revenue Estimate: (A) x (B) x (C) x 365:	\$
*To complete this form, use ERS portfolio holdings (provided in Attachment 4)	

RESPONSE: Forward-looking.

16. **QUESTION:** General Questions

- a. Hawaii has a listed conversion/live date of 1/1/25 listed in the RFP. This would be a very truncated review, selection, negotiation, discovery, and implementation should Hawaii's end decision result in anyone other than your incumbent. Has Hawaii considered the need to extend your current contract with BNY to align with your fiscal year end of 6/30/25? Any thoughts/input on this topic is appreciated as we would want to make sure we had the appropriate time to thoughtfully and strategically migrate your business to allow you to capture the value a change in provider could generate for you and your operations.

RESPONSE: ERS will consider all contracting options when evaluating proposals. Decisions associated with extensions will be communicated to the ERS Board of Trustees and worked through with selected respondents.

- b. Can you confirm this is a misstatement below? And or confirm how/why BNY would be involved regardless of your decision on this RFP so we can understand and respond accordingly?

“Where do you offer services and capabilities over and above their core services in partnership with other firms or fin-techs which can be additive to our investment and administration process? Which of these services or relationships can be contracted through BNY Mellon as part of the core contract or an addendum.”

RESPONSE: Apologies for the oversight. This is a misstatement.

Page 61 of 76, Section V, Item 1 should read: “Where do you offer services and capabilities over and above their core services in partnership with other firms or fin-techs which can be additive to our investment and administration process? Which of these services or relationships can be contracted through **the custodian** as part of the core contract or an addendum.”

- c. Are there any custom report requirements on a daily, monthly, or annual basis outside of what is listed in the RFP? Does ERS Hawaii have any strategic objectives and/or pain points you are trying to solve throughout this search process that we should be aware of?

RESPONSE: ERS has considered it's pain points and custom reporting requirements while drafting the Scope of Services. However, ERS does reserve the right to expand requests, as due diligence is performed, if necessary. Strategically, ERS will seek to leverage all practical tools and services that will assist in the enhancement of total fund portfolio management and analysis; all with a focus on not imposing excessive and/or ongoing administrative burden on internal staff of ERS.

- d. Can you please provide further details on your cash equitization needs and what role your current provider plays in facilitating this?

RESPONSE: See previously response provided in 1.b.

- e. Who do you use today for transition management and are you interested in receiving bundled options if you used your custody provider for this service?

RESPONSE: ERS has historically engaged third party transition management services, via a competitive bid process. Providers may vary based on such process. All services are being considered, inclusive of bundled options for use of custody provider for this service.

- f. Do you do anything today in the form of Transaction Cost Analysis (TCA) for fixed income, equity, and FX trades and do you have any interest in a provider's capabilities in this space?

RESPONSE: No existing TCA services are being utilized, but ERS does intend to expand services in this area.

- g. Does ERS Hawaii have any expense administration requirements? Examples include daily automated manager fee accruals, invoice reconciliation, and loading of invoices into cash portal to ease the operational burden on ERS Hawaii.

RESPONSE: No.

- h. Can you provide an overview of your plan accounting needs and your desired level of reporting for your multiple plans mentioned? It is important for us to have a strong understanding of this in order to appropriately construct a solution that would meet your financial reporting and operational needs.

RESPONSE: Plan Accounting is not required for accounts in the ERS Pension Trust that are listed in "Account Type Summary" in Section I, Overview listed on pages 4-6 of the EOI.

ERS may require Plan Accounting (Dollar Allocation or Unitization) in the future for a limited number of accounts as discussed in Notes on Account Type Summary on Page 7 of the EOI, such as accounts for Advanced Contributions (Note 6E). If implemented, ERS estimates there will be there will be up to ten (10) accounts and/or sub accounts with principal and interest reporting.

- i. You note that you use a third-party provider today for class actions. Can you please share who you are using today?

RESPONSE: See previously response provided in 4.f.

- j. Can you please provide an overview of your current benefit/disbursement workflows. We notice it says this is done through local banks, but we also see a large section of questions around ACH, fraud protection, etc. Can you let us know explicitly what is required today and provide volumes of all activities over a 12-month window for things like ACH, check, fraud protection, reversals, etc.?

RESPONSE: ERS currently processes all benefit/distributions in-house via ERS's Pension Administration computer system, including creating ACH files, printing and mailing checks, and making tax payments. Future payment processing will continue to be through the local ERS bank. ERS has certain fraud prevention features/processes with the local ERS Bank in place to detect, prevent and minimize fraud.

Going forward for business continuity processing, ERS is requesting information on your organization's disbursement payment process in the EOI questions. If implemented, ERS estimates that will continue to generate the benefit payment records internally, then transmit files to your organization (via a secure file transfer method) for processing from a separate dedicated account to include, but not limited to the following services:

- processing ACH payments.
- submitting records for ACH reversals.
- printing and mailing checks
- placing stop payments on checks to be voided.
- utilizing your organizations fraud prevention tools/processes (such as positive payee matching on checks and debit blocking on accounts)
- obtain files/information to perform bank reconciliation.

ERS currently processes approximately 57,000 total monthly payment transactions (including less than 300 payments outside the United States). Each year, the monthly payment transaction volume increases by about 2,000 payments (due to an increase in the number of retirees). The following provides more information on these monthly payments.

- Payment dates (ACH and checks issued)– 4-8 per month.
- ACH payments - 56,700+ per month, increases approximately 2,000 every 12 months.
- ACH reversals – 30 per month.
- Checks printed and mailed – 300 per month.
- Stop payments placed – less than 3 per month.

While ERS currently does not utilize International ACH for these benefit payments, International ACH payments may be required in the future when non-U.S. financial institutions stop accepting checks for deposit.

- k. There are multiple references to internal management and front, middle, and back-office capabilities throughout the RFP. Does Hawaii have any internal management today? If so, what asset classes are being managed and what is your general technology footprint look like today (OMS, IBOR, etc.)? If no current internal management is there a desire to develop this capability overtime? Any details around current and future objectives here is appreciated.

RESPONSE: See previously response provided in 1.b.

17. **QUESTION: Performance & Analytics Questions**

- a. Can you provide details on the expectations for performance reporting on your parametric overlay? Do you require derivatives notionalization in your reporting? Do you require asset splitting to appropriately allocate the various synthetic exposures across your plan views? Any further details you can provide here are appreciated.

RESPONSE: ERS does not currently utilize any specialized performance or analytics for their reporting of the Parametric Overlay accounts. However, expanded capabilities in performance reporting of notional exposure would be a welcomed conversation for considered enhancements.

- b. We are seeing both the 12th and 15th as your performance close in the RFP. Can you confirm what day you currently get your final performance?

RESPONSE: Apologies for the inconsistencies. ERS is seeking performance close capabilities on or before the 15th business day of each month.

Page 22 of 76, Section I, Item 1 should read: “Provide audited monthly performance reports detailing the market values, cash flows and returns of the portfolio, including both custodied and non- custodied assets, asset classes and on a consolidated basis at gross, net of management fees, and net of all fees using Global Investment Performance Standards (GIPS®) compliant calculation methodology by the **fifteenth** (15th) business day of the month for the prior month’s performance.”

Page 22 of 76, Section I, Item 3 should read: “Provide monthly audited sector, industry and CUSIP level reports by the **fifteenth** (15th) business day of the month.”

- c. Can you clarify; our understanding is that ERS Hawaii is looking for daily performance, universes, indices and risk analytics for public securities and Administration and performance for privates? Can you confirm or deny if the below mentioned information is required?

RESPONSE: Confirmed.

- d. Can you please provide more details and an example file for your noted look through requirements as it relates to the following question? Can you also provide details on what level of performance/analytics you are looking to feed this data into, how many accounts, what type of accounts, etc. We have robust look through capabilities, but we want to make sure we understand your current/desired results here to make sure we construct the right overall solution to meet your needs.

“Ability to accept databases from a fund administrator into your database to provide analytics on ERS holdings, custodied at that administrator monthly.

RESPONSE: No existing look-through reporting is being utilized, but ERS does intend to expand services in this area. Please expand on look-through capabilities, so ERS may consider its future-state needs.

- e. Monthly or daily performance?
Also, please confirm:
of portfolios/ Separately managed accounts
of line items
of composites

RESPONSE: Monthly audited performance and daily preliminary performance is requested. Please reference the Account List attachment, referenced in item 11.a, for portfolio, line item, and composite information.

- f. Monthly or daily manager attribution?
please confirm:
of portfolios/ Separately managed accounts
of composites

RESPONSE: Monthly manager attribution is requested on all Custody accounts, noted on Account List attachment. Please reference the Account List attachment, referenced in item 11.a, for clarity on portfolio and composite information.

- g. Monthly or daily plan attribution?
please confirm number of plans:

RESPONSE: Monthly plan attribution is requested. ERS is considered one single plan, no multi-plan attribution is required.

- h. Monthly or daily Commingled Look Through?
please confirm number of line items:

RESPONSE: Monthly commingled look-through is requested.

- i. Characteristics reporting (P/E ratio, div yield, Duration, Yield to Maturity, etc.)?
please confirm:
#number of line items:
of portfolios/ Separately managed accounts
of line items (requires subscription to commingled look through)
of composites

RESPONSE: No existing characteristic reporting is being utilized at the custody, but ERS does intend to expand services in this area. Please expand on available characteristic reporting capabilities, so ERS may consider its future-state needs.

- j. Quarterly Universe comparison?
please confirm:
of portfolios/ Separately managed accounts
of composites

RESPONSE: Yes. Please reference the Account List attachment, referenced in item 11.a, for clarity on portfolio and composite information. Please discuss all areas/portfolios/composite available within your universe comparison capabilities, so ERS may consider its future-state needs.

- k. Monthly or daily Custom Index benchmarks required?
At the total level or the constituent level?
Also, please share list benchmarks.

RESPONSE: ERS utilizes publicly available index benchmarks within its Policy. To the extent customization would be required, it is anticipated that it would only apply to custom blended/weighted composites of approved public benchmarking. Monthly data at the total fund and constituent level would be required. Please reference ERS' Investment Policy Statement, accessible on the ERS website, for a list of utilized benchmarks. [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](#)

- l. Monthly or daily Standard Index benchmarks required?
At the total level or the constituent level?
Also, please share list benchmarks.

RESPONSE: Monthly data at the total fund and constituent level would be required. Please reference ERS' Investment Policy Statement, accessible on the ERS website, for a list of utilized benchmarks. [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](#)

18. **QUESTION:** Alternative Asset Support

- a. Does ERS Hawaii require commitment tracking services alongside the stated requirement for IRRs?

RESPONSE: This is not required, is but highly desired. Please proceed with a proposal that offers your applicable capabilities for ERS consideration.

- b. Does ERS Hawaii require company/property level look throughs for your private market investments?

RESPONSE: This is not required, is but highly desired. Please proceed with a proposal that offers your applicable capabilities for ERS consideration.

- c. Does ERS Hawaii require realized reporting at the company/property level (calculate TVPI/DPI at this level)?

RESPONSE: : This is not required, is but highly desired. Please proceed with a proposal that offers your applicable capabilities for ERS consideration.

- d. Does ERS Hawaii have any requirements as it relates to private market fee transparency reporting?

RESPONSE: This is not required, is but highly desired. Please proceed with a proposal that offers your applicable capabilities for ERS consideration.

- e. Does ERS Hawaii have any requirements or interest in the ability to manage cash flow pacing across your private markets program?

RESPONSE: This is not required, is but highly desired. Please proceed with a proposal that offers your applicable capabilities for ERS consideration.

- f. Does ERS Hawaii invest in any FOF structures in your private markets portfolio? If yes, can you please describe any challenges and/or requirements as it relates to drilling into the underlying investments.

RESPONSE: Yes, ERS has invested in FOF structures within private markets. This path toward implementation is being deemphasized, moving forward, due to the challenges of look-through capabilities, longer than normal lagged valuation processes, and the high cost of implementation due to the various layers of fees.

- g. If ERS Hawaii invests in hedge funds, do you require any look through capabilities to support exposure reporting, performance, or risk?

RESPONSE: Yes, ERS invests actively in hedge funds, within Diversifying Strategies. However, ERS does not take on blind pool risk within these strategies, and instead, invests in dedicated managed account structures. These managed account structures are administered by a third-party platform provider, but it would be desired that the look-through capabilities available to ERS at the platform level, be integrated into the look-through capabilities at the custody level, to allow for a holistic total portfolio analysis. Enhancements in the integration of position-level data from the platform manager to the custody bank is highly desired. Please proceed with a proposal that offers your applicable capabilities for ERS consideration.

- h. What are you using for your custom private asset benchmark today? Are you interested in hearing about other capabilities for creating custom private equity indices?

RESPONSE: ERS does not utilize custom private benchmarking. All benchmarking, including for illiquid assets, had been strategically adopted to meet CFA benchmarking standards, being public, well-defined, and replicable. No custom benchmarking information is required currently.

- i. In the RFP Alternatives section Q3, ERS Hawaii has listed the following item as a requirement. Does this pertain to stock distributions or processing activity that is recorded in financial statements but not paid out in cash?

3. Provide recording of non-cash deemed distributions and non-cash contributions and distributions of assets to the ERS from partnership.

RESPONSE: ERS is referring to in-kind stock distributions from their private market partnerships.

19. **QUESTION:** Cash Management/Overlay Questions

- a. Does ERS Hawaii have any preferential rate arrangements on deposits with your current provider that we should be aware of? Similarly does ERS Hawaii have any cash collateralization requirements on deposits left with your provider?

RESPONSE: No, ERS does not have any preferential rate arrangements or cash collateralizations requirements on deposits with the current provider.

- b. Can ERS Hawaii provide additional clarity on the type of STIF vehicle preferred (prime, gov, fixed NAV, floating NAV, etc.)? What is ERS Hawaii paying today in bps for the management of your current vehicle?

RESPONSE: ERS currently utilizes the EB Temporary Investment Fund, managed by Mellon Investments Corporation. This Collective Fund invests primarily in instruments issued by the U.S. Government, Federal agencies, sponsored agencies, or sponsored corporations. ERS pays 8bps for the cost of management of this vehicle and welcomes a conversation on proposed enhancements or expanded offerings.

- c. In your statistics you note that the cash associated with your overlay program is not included in the average balances provided. Can you please provide details on the average cash associated with this program, where and how this cash is held today (STIF, DDA, etc.), along with any further details you can provide to make sure we have the same information as the incumbent, so you receive apples to apples proposals for comparison?

RESPONSE: See previously response provided in 11.e.

- d. For the SHE (securities held elsewhere) accounts can you confirm that cash is flowed through the custodian for each investment (i.e. For a Cap Call the custodian is wiring out the money for the investment)

RESPONSE: Confirmed.

- e. Would you be able to provide us with monthly historical cash balances for us to run an analysis. If possible, please separate the cash balances by asset class.

RESPONSE: See previously response provided in 11.e.

- f. Does Hawaii ERS allow use of derivatives such as futures and swaps and instruments such as ETFs for cash overlay purposes?

RESPONSE: Yes, these instruments are allowable.

- g. Is Hawaii ERS seeking cash equitization services only for the cash overlay program or is the desire to also include strategic rebalancing? If the latter, please provide you overall asset allocation by asset class and ranges for the allocations.

RESPONSE: Cash equitization is not required, but ERS welcomes this discussion on capabilities. Currently, ERS only runs a diversified cash overlay program, and does not have an immediate need to expand services into strategic rebalancing.

- h. What will be the specific requirements of the cash overlay program? Do your existing managers equitize their cash balances?

RESPONSE: Cash equitization is not required, but ERS welcomes this discussion on capabilities. ERS's third-party investment manager, Parametric, equitizes all ERS account cash balances.

20. **QUESTION:** Volume/Stats Questions

- a. Can you please provide a comprehensive accounting holdings file that includes all accounts regardless of custody or Securities Held Elsewhere? It is important for us to have this detail, inclusive of all holdings, derivatives from your overlay, etc. to understand your full account structure to provide an apples to apples bid for comparison including but not limited to the following fields:

Date of holdings

Account identifier/Fund Name

Number of shares held

Base and local market values

Valid security Identifiers (CUSIP, ISIN, Sedol)

Security name

Country identifier (by currency/market settlement)

RESPONSE: See previously response provided in 11.e.

- b. Please provide the number of private market LPs and hedge funds invested in and include a total commitment figure for your overall private markets portfolio?

RESPONSE: ERS is an active investor in private markets and continues to grow its allocation. To date, ERS approximates a portfolio of nearly 325 private market LPs, totaling \$15.4b in committed capital, across all vintage years.

Regarding hedge fund allocations, please refer to item 18.g, for additional clarity on implementation structures for ERS hedge fund investments. To date, ERS approximates a portfolio of nearly 15 hedged-fund-like LLCs, totaling \$3.5b in invested capital.

- c. Please provide 12 months' worth of trade volumes (buy/sell) by country.

RESPONSE: See previously response provided in 11.e.

- d. Please provide 12 months' worth of FX transactions by currency pair (either local amount or USD volume) delineated between custodian execution and/or 3rd party execution.

RESPONSE: See previously response provided in 11.e.

- e. Please provide 12 months' worth of wires in/out

RESPONSE: See previously response provided in 11.e.

- f. Please provide 12 months' worth of all other transaction volumes including but not limited to principal paydowns, swaps, futures, options, etc.

RESPONSE: See previously response provided in 11.e.

- g. Please provide a 12-month average balance for all foreign currency balances

RESPONSE: See previously response provided in 11.e.

21. **QUESTION:** Securities Lending Questions

- a. Would you be willing to lend 100% of the assets with the custody incumbent and/or are there any third-party providers involved or being considered at this time?

RESPONSE: Please refer to item 7.a, for previously provided response.

- b. What collateral reinvestment guidelines/assumptions should we assume? Do you have a precise yield to use with our estimate for optimal accuracy?

RESPONSE: Please reference ERS' Investment Policy Statement, accessible on the ERS website, for an understanding of Policy requirements for the Securities lending program. [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](#).

- c. Do you intend to have any limits on your lending program (borrower or loan restrictions, caps, or minimum loan spreads)?

RESPONSE: Please reference ERS' Investment Policy Statement, accessible on the ERS website, for an understanding of Policy requirements for the Securities lending program. [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](#).

- d. What forms of non-cash collateral (if any) would you be willing to accept?

RESPONSE: Please reference ERS' Investment Policy Statement, accessible on the ERS website, for an understanding of Policy requirements for the Securities lending program. [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](#).

- e. Would you require any/all securities be recalled voting proxy?

RESPONSE: Please reference ERS' Investment Policy Statement, accessible on the ERS website, for an understanding of Policy requirements for the Securities lending program. [HIERS-IPS-November-2023_20240101-Final.pdf \(ehawaii.gov\)](#).

22. **QUESTION:** Post-Trade Compliance Questions

- a. What portfolios is ERS Hawaii looking to monitor investment guidelines on?

RESPONSE: ERS will require monitoring of investment guideline compliance on all separate accounts, held in custody at the contracted organization.

- b. Do you have any requirements to drill into commingled fund look-throughs to monitor guidelines? If so, please provide details on fund counts and strategy.

RESPONSE: This is not required, is but highly desired. Please proceed with a proposal that offers your applicable capabilities for ERS consideration.

- c. Does ERS Hawaii have any complex monitoring requirements?

RESPONSE: ERS has considered it's monitoring requirement while drafting the Scope of Services. However, ERS does reserve the right to expand requests, as due diligence is performed, if necessary.